# PATENTS AND THE SHERMAN ACT.

## I.

A patent is a true monopoly. It is granted under an Act of Congress.[1] The right conferred thereby is thus defined:

"The franchise which the patent grants consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. That is all that he obtains by the patent."[2]

But a grant of an exclusive privilege by the King or by the State is a monopoly in its strictest sense. A monopoly is thus defined by Sir Edward Coke:[3]

"A monopoly is an institution, or allowance by the king by his grant, commission, or otherwise to any person or persons, bodies politique, or corporate, of or for the sole buying, selling, making, working, or using of any thing, whereby any person or persons, bodies politique, or corporate, are sought to be restrained of any freedome, or liberty that they had before, or hindered in their lawfull trade."

This definition of monopoly in its technical sense has been quoted with approval by the Supreme Court of the United States.[4] Clearly a patent falls precisely within its terms.

The Sherman Act[5] prohibits restraints or monopolies of Interstate Commerce. The first two sections of that act are as follows:

"Section 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor * * *."

"Section 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor * * *."

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[1]U. S. Comp. Stat. (1901) § 4884.

[2]Bloomer *v.* McQuewan (1852) 14 How. 539, 549; Continental Paper Bag Co. *v.* Eastern Paper Bag Co. (1908) 210 U. S. 405, 425.

[3]3 Inst. 181, c. 85.

[4]United States *v.* E. C. Knight Co. (1895) 156 U. S. 1, 9; Standard Oil Co. *v.* U. S. (1911) 221 U. S. 1, 51.

[5]26 Stat. 209.

The Patent Act thus creates a monopoly while the Sherman Act prohibits monopolies. Moreover, the Sherman Act is the later enactment. But the two statutes are not in conflict. The first section of the Sherman Act extends to interstate commerce the common law rules as to restraint of trade.[6] The words "restraint of trade" are used in their technical and common law sense, not in their colloquial sense. The second section is intended to reach the evils caused by restraint of trade, whether these evils are produced by the acts prohibited by the first section, or in some other fashion.[7] Public policy, however, largely determines what is a "restraint of trade" in the common law sense. That which is expressly authorized by law does not violate the restrictions imposed by public policy. Patents are created by law. It follows that the franchise conferred by the patent is not diminished or restricted by the Sherman Act.[8] The patentee has under the Sherman Act the same right which he previously had to exclude others from making, using or vending the invention.[9]

Under the law as it now stands a patentee may suppress his invention during the life of the patent. Even though he does not use the invention himself he may restrain infringement by others.[10] But he may desire to use the invention himself or to license others to use it. Let us assume that he does so. Let us further assume that he or his licensees ship the patented article into other states. Such shipment is interstate commerce.[11] The first question is how far a patentee engaged in interstate commerce is subject to the Sherman Act.

## II.

A sharp distinction must be drawn between the right of the patentee to exclude others from making, using or vending the patented article, and the right of the patentee to make, use or vend it. The right to exclude others is the patent franchise. It is

[6]Standard Oil Co. *v.* U. S. (1911) 221 U. S. 1.

[7]*Ibid.* 61, 62.

[8]See Bement *v.* National Harrow Co. (1902) 186 U. S. 70; Henry *v.* A. B. Dick Co. (1912) 224 U. S. 1.

[9]Henry *v.* A. B. Dick Co. *supra.*

[10]Continental Paper Bag Co. *v.* Eastern Paper Bag Co. (1908) 210 U. S. 405.

[11]U. S. *v.* Addyston Pipe etc. Co. (1899) 175 U. S. 211; Montague *v.* Lowry (1904) 193 U. S. 38; Loewe *v.* Lawlor (1908) 208 U. S. 274; Rearick *v.* Pennsylvania (1906) 203 U. S. 507; International Text Book Co. *v.* Pigg (1910) 217 U. S. 91.

granted under a statute which was passed under powers expressly conferred by the Constitution.[12] No state may destroy or abridge it. Even the far reaching police power of the states touches it but lightly.[13] The right of the patentee to make, use or vend the patented article is of wholly different character. It is not derived from the patent. The patentee had it before he took out the patent. He would still have it had he never patented the invention. He may make, use or vend the invention because any person has a right to employ his mind, body or property as he sees fit, subject only to the limitations imposed by law. The two rights are thus derived from different sources. The right of the patentee to exclude others is a special privilege conferred by statute. The right of the patentee to make, use or vend is derived from the general law, and is subject to regulation by that law. This distinction has far reaching effects upon the rights of the patentee under the Sherman Act.

The right of the patentee to make, use or vend the patented article is subject to the police power of the several states.[14] The patent confers no right to break state laws. A patentee who sells a patented illuminating oil[15] or patented oleomargarine[16] in violation of a state statute may be convicted and punished. The patentee of a patented medicine may not prescribe it without the license required of physicians by law.[17] The patentee of a lottery may not draw it in a state where lotteries are prohibited.[18] Patented articles are subject to state taxation, though the patent franchise is not.[19] If then patented articles when sold within a state are within the legislative jurisdiction of the states they cannot be beyond the reach of legislation by Congress when shipped into the several states. It follows that a *dictum* which in effect declares that patented articles, until released from the patent, are not within the scope of the Sherman Act[20] is unsound.

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[12] U. S. Const. Art. 1, § 8.

[13] Allen *v.* Riley (1906) 203 U. S. 347; Woods *v.* Carl (1906) 203 U. S. 358, holding that a state to prevent fraud may require the recording of certain papers in connection with the transfer of a patent.

[14] Opinion of the Justices (1907) 193 Mass. 605.

[15] Patterson *v.* Kentucky (1878) 97 U. S. 501.

[16] *In re* Brosnahan (1883) 18 Fed. 62.

[17] Jordan *v.* The Overseers of Dayton (1830) 4 Ohio 294.

[18] Vannini *v.* Paine (Del. 1833) 1 Harr. 65.

[19] Webber *v.* Virginia (1880) 103 U. S. 344.

[20] Baker, *J.*, in Rubber Fire Wheel Co. *v.* Milwaukee Rubber Co. (1907) 154 Fed. 358, 362.

The right of the patentee to contract with respect to the patent is not conferred by the patent but by the general law. That law determines the validity of such contracts. Thus equity may refuse to enforce an unconscionable license agreement.[21] And a state may prohibit the owner of machinery from leasing the same upon condition that the lessee procure all similar machines from the lessor alone, even though the statute would apply to patented articles.[22] In the same way the holder of telephone patents may not insert in its licenses to a telephone company a condition that telephone service be not given to any telegraph company except the Western Union, since such a condition is in violation of the duty of a telephone company to serve all alike.[23] These cases show that license contracts are subject to the police power of the state and to the common law rule which governs public service companies. Were the right to permit others to use the invention derived from the patent franchise instead of from the general law, it would have overridden alike the common law and the statutes of the state.

The distinction between the right to exclude others from using the invention and the right to contract concerning the invention is well illustrated by the rule as to federal jurisdiction. It is well settled that the federal courts have exclusive jurisdiction by *reason of subject matter,* of actions based upon infringement of the patent franchise.[24] But the federal courts have no jurisdiction *by reason of subject matter* over actions to enforce,[25] or to set aside, license agreements[26] or to recover royalties thereunder.[27] This distinction rests upon the different source and nature of the two rights. Actions to redress infringement are based upon violation of the patent franchise. This franchise consists solely in the right to exclude others from making, using or vending the invention. It is derived from the Patent Act, and so confers federal jurisdiction.

[21]Pope Mfg. Co. *v.* Gormully (1892) 144 U. S. 224.

[22]Opinion of the Justices (1907) 193 Mass. 605.

[23]State *v.* Bell Telephone Co. (1885) 23 Fed. 539; State *v.* Delaware etc. Tel. Co. (1891) 47 Fed. 633, affirmed (1892) 50 Fed. 677; Chesapeake etc. Tel. Co. *v.* Baltimore etc. Tel. Co. (1886) 66 Md. 399.

[24]Henry *v.* A. B. Dick Co. (1911) 224 U. S. 1.

[25]Brown *v.* Shannon (1857) 20 How. 55; Hartell *v.* Tilghman (1878) 99 U. S. 547; Goodyear *v.* Union etc. Co. (1857) 4 Blatch. 63; Burr *v.* Gregory (1828) 2 Paine 426.

[26]Wilson *v.* Sandford (1850) 10 How. 99; Merserole *v.* Union etc. Co. (1869) 6 Blatch. 356.

[27]Allbright *v.* Teas (1882) 106 U. S. 613; Dale Tile Mfg. Co. *v.* Hyatt (1887) 125 U. S. 46; Blanchard *v.* Sprague (1859) 1 Cliff. 288.

The right to grant licenses or otherwise to contract concerning the invention is derived from the general law. It is subject to the statute and common law of the several states. License contracts have precisely the same origin as contracts concerning unpatented articles. Actions upon license agreements present no federal question. This difference in jurisdiction emphasizes the different sources from which the patent franchise and the right to contract in respect of it are derived.

III.

The Sherman Act applies to patentees. They are not a class apart. It may be conceded that the Sherman Act did not diminish the extent of the patent franchise. But that franchise consists wholly in the right to exclude others from making, using or vending the patented invention. It confers no right to make, use or vend. It confers no right to contract with respect to the invention. Both the latter rights are derived from the general law. Both are subject to regulation by that law. The general law includes the federal statutes and the statute and common law of the several states. If the patentee ship the invention abroad or into the several states he engages in interstate commerce. If he engages in interstate commerce he subjects himself to the Sherman Act. His patent cannot remove him from the scope of that statute.

The Sherman Act is directed against "restraint of trade or commerce among the several states or with foreign nations." But the words "restraint of trade" were used in their common law, not their colloquial sense.[28] At common law everything which restrained trade was not necessarily a "restraint of trade." Incidental and indirect restraints did not offend against this rule of public policy.[29] Even a direct and sensible restraint was not necessarily bad. Thus one who sold out a business and its good will might covenant not to destroy that good will by competition. If the covenant was not of greater extent in space and time than was required under the circumstances it was valid.[30] But if the restraint was too extensive the covenant was void.[31] In a word

[28]Standard Oil Co. *v.* U. S. (1910) 221 U. S. 1.

[29]Hopkins *v.* U. S. (1898) 171 U. S. 578; Anderson *v.* U. S. (1898) 171 U. S. 604.

[30]Oregon Steam Nav. Co. *v.* Winsor (1873) 20 Wall 64; Cincinnati Packet Co. *v.* Bay (1906) 200 U. S. 179.

[31]Oregon Steam Nav. Co. *v.* Winsor *supra;* Shawnee Compress Co. *v.* Anderson (1908) 209 U. S. 423.

what was a "restraint of trade" was a question of fact under all the circumstances of each case. And this rule was applied to interstate commerce by the Sherman Act.[32]

The rule above stated applies to a patentee. The question then is what acts by a patentee will amount to a "restraint of trade and commerce among the several states"? This is a question of fact under all the circumstances of the case. And a vital circumstance is the possession of the patent. True, the patent does not confer the sole right to make, use or vend. It only confers the right to exclude others from making, using or vending. But under and subject to the general law, irrespective of the patent, the patentee has a right to use his invention. His patent renders this right exclusive. Consequently, he has a monopoly which is born from a union of his franchise and his common law right. This monopoly will extend to interstate commerce if he engages therein. Such a monopoly, being created by law, does not violate the Sherman Act.[33]

It is now settled law that a patentee does not forfeit or diminish his patent franchise by suppressing his invention.[34] And none may use it without his consent. He thus has *power* to prescribe any condition which he sees fit as the price of user. This, however, does not mean that every condition which he chooses to prescribe is valid and legal. His right to prescribe conditions springs from his general right of contract. As has been shown this right is derived from the general law and is subject to that law.[35]

Yet certain peculiar privileges have been held to be incidental to the patent franchise. Thus the patentee may sell the patented article and prescribe a re-sale price,[36] though this right is denied to the holder of a copyright[37] and to the owner of a secret formula for compounding medicine.[38] He has also been allowed to license another to manufacture a patented harrow upon

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[32]Standard Oil Co. *v.* U. S. *supra.*

[33]See Bement *v.* National Harrow Co. (1902) 186 U. S. 70; Henry *v.* A. B. Dick Co. *supra.*

[34]Continental Paper Bag Co. *v.* Eastern Paper Bag Co. (1908) 210 U. S. 405.

[35]See ante § II. See also Henry *v.* A. B. Dick Co. *supra.*

[36]New Jersey Patent Co. *v.* Schaefer (1906) 144 Fed. 437; The Fair *v.* Dover Mfg. Co. (1908) 166 Fed. 117; Automatic Pencil Sharpener Co. *v.* Goldsmith (1911) 190 Fed. 205, 25 Harv. L. Rev. 454.

[37]Bobbs-Merril Co. *v.* Straus (1908) 210 U. S. 339.

[38]Dr. Miles Medical Co. *v.* Park & Sons. Co. (1911) 220 U. S. 373.

condition that the licensee manufacture no other patented harrow,[39] though the restriction was upheld on the ground that it was intended to prevent infringement of other patents. He has even been permitted to grant a number of licenses to different licensees which restricted each licensee as to both price and territory[40] but this was on the ground that the patentee might sub-divide his monopoly as he saw fit.

A patentee, then, is not outside the scope of the Sherman Act. But since his monopoly is born of his patent franchise and his right under the general law, that monopoly does not infringe the act. Moreover he is not compelled by law to use his invention or to part with any portion of his monopoly. He may by contract sub-divide that monopoly even though such contracts would as to unpatented articles result in a forbidden restraint of trade. His monopoly is property which he may use as he uses other property. Yet he may not use his monopoly as a means to do what the law forbids. A patent is not an indulgence to violate the law.

IV.

One final question remains to be considered. How far may a patentee add to his monopoly by agreement? Here, the direct cases are few and will be considered in detail.

In the first place it has been held that the patentee may not impose restrictions which extend beyond the life of the patent. In *Strait* v. *National Harrow Co.*,[41] the patentee exacted as the price of the license, agreements which in effect would have extended the patent fifty years. This agreement the court held was bad. It is true that the decision was by an inferior state tribunal, but the case was not appealed and it has been widely cited and approved.

Again, it has been held improper to grant a license under one patent on condition that the licensee will not attack other patents of the licensor. Such a condition would enable the owner of a single valid patent to sustain other patents of doubtful validity, and thereby greatly extend his monopoly. As Brown, *J.* said:

"* * * * * It is as important to the public that competi-

[39]Bement *v.* National Harrow Co. *supra.*

[40]Goshen Rubber Works *v.* Single Tube etc. Co. (1908) 166 Fed. 431. See also Rubber Tire Wheel Co. *v.* Milwaukee Rubber Works Co. (1907) 154 Fed. 358; Bement *v.* National Harrow Co. *supra.*

[41](1891) 18 N. Y. Supp. 224.

tion should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly. * * *"[42]

The next group of cases, known as the *National Harrow Cases*, involve the right of different patentees who might otherwise compete, to assign their respective patents to a holding company in order to stifle such competition. In each of the cases it appeared that the National Harrow Co. was organized to acquire and hold all the patents for float spring tooth harrows held by various corporations and firms throughout the United States, and then to grant licenses to such corporations and firms by which the selling price of the harrows was fixed and competition therein eliminated.

The question first arose in *National Harrow Co.* v. *Quick* upon a bill by the Harrow Co. to restrain infringement of certain letters patent, and District Judge Baker, in holding the combination illegal said:

"It seems to me that such a combination is illegal, and that its purposes are violative of sound public policy. The common law forbids the organization of such combinations, composed of numerous corporations and firms. * * *"[43]

The question again arose in *National Harrow Co.* v. *Hench*, where Circuit Judge Acheson, in reaching the same result, said:

"* * * * * * It is true that a patentee has the exclusive control of his invention during the life of the patent. He may practice the invention or not, as he sees fit, and he may grant to others licenses upon his own terms. But where, as was the case here, a large number of independent manufacturing concerns are engaged in making and selling under different patents and in various forms, an extensively used article, competition between them is the natural and inevitable result, and thereby the public interest is promoted. Therefore, a combination between such manufacturers, which imposes a widespread restraint upon the trade, and destroys competition, is as injurious to the community, and as obnoxious to sound public policy, as if the confederates were dealing in unpatented articles. * * * To sanction such a result, because accomplished by a combination of patentees, would be, I think, to pervert the patent laws. * * *"[44]

The Harrow Co. appealed to the Circuit Court of Appeals for the Third Circuit where the court in affirming the decision said:

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[42]Pope Mfg. Co. *v.* Gormully (1892) 144 U. S. 224, 234.

[43](1895) 67 Fed. 130, 131. The case was affirmed upon the ground that the patent in question was void for want of invention. (1896) 74 Fed. 236.

[44](1896) 76 Fed. 667, 669.

"* * * * * * * The fact that the property involved is covered by letters patent is urged as a justification; but we do not see how any importance can be attributed to this fact. Patents confer a monopoly as respects the property covered by them, but they confer no right upon the owners of several distinct patents to combine for the purpose of restraining competition and trade. Patented property does not differ in this respect from any other. The fact that one patentee may possess himself of several patents, and thus increase his monopoly, affords no support for an argument in favor of a combination by several distinct owners of such property to restrain manufacture, control sales, and enhance prices. Such combinations are conspiracies against the public interests, and abuses of patent privileges. * * *"[45]

It has sometimes been urged that these cases are modified or overruled by *Bement* v. *National Harrow Co.* In that case the National Harrow Co. brought action in the courts of New York to restrain violation of two license agreements (spoken of in the opinion as A & B) and to recover damages. These agreements licensed the plaintiff to manufacture harrows under a certain patent at a royalty of one dollar per harrow. The plaintiff agreed to defend suits for infringement and made it a condition of the license that the harrow should be sold at a certain price and that the defendant should not make other patented harrows. The defendant alleged in the answer that the plaintiff was an illegal combination, but the referee to whom the case was referred did not find this to be the fact and gave judgment for the plaintiff. The report of the referee was eventually affirmed by the Court of Appeals, and the case was brought, upon the question of illegal combination, before the Supreme Court of the United States. That court held that the facts which appeared in the referee's report were insufficient to show a combination and affirmed the judgment. That this was all that was decided appears by the following quotations:

"* * * The omission of the referee to find from the evidence that the contracts A and B were a continuation of former contracts held to have been void, and that there were in fact other manufacturers of harrows who had entered into the same kind of contracts with plaintiff as those denominated A and B, and that there was a general combination among the dealers in patented harrows to regulate the sale and prices of such harrows, furnishes no ground for this court to assume such facts. The con-

[45](1897) 83 Fed. 36, 38. This case was followed though without extended argument in National Harrow Co. *v.* Hench (1898) 84 Fed. 266; Bement *v.* National Harrow Co. *supra.*

tracts A and B are to be judged by their own contents alone and construed accordingly."

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"* * * As between these parties, we hold that the agreements A and B actually entered into were not a violation of the act. We are not called upon to express an opinion upon a state of facts not found. * * * *"[46]

It may be observed that the conditions imposed by the license in *Bement* v. *National Harrow Co.* were not of far reaching character. The license was a license to manufacture under the patent. The restriction as to sale price, therefore, was not a restriction attached to a chattel upon its transfer but a restriction by the owner of the patent upon the production of the patented article.[47] It does not appear from the case that this condition was to be re-imposed upon the purchaser from the licensee. And even if the restriction had been attached to the patented article, as a considerable body of federal authority allows,[48] it would merely have sub-divided the patentee's monopoly. Nor can the condition against making other patented harrows be deemed oppressive in this instance. The license fee was one dollar a harrow. The licensor's return was directly in proportion to the number of harrows made and sold. Such a restriction would bring about the fullest exploitation of the invention by confining the licensee's energies to one channel. Moreover, the licensor was bound to defend the licensee against infringement suits. If the licensee were allowed to deal in other patented harrows infringement litigation might easily spring up. This consideration had great weight with the court, which by construction considerably narrowed this condition. It may thus be said that the conditions imposed had an honest relation to the subject matter of the agreement. They may be supported upon the same principles which sustain reasonable covenants by a vendor of business not to compete with his vendee.

In view of the restricted nature of the decision in *Bement* v. *National Harrow Co.* the correctness of *United States Consolidated Raisin Co.* v. *Griffin & Skelley Co.*[49] is open to serious

[46](1902) 186 U. S. 70, 85, 95.

[47]The owner of a secret though unpatented formula for compounding medicine may impose considerable restrictions upon one whom he licenses to use it. Fowle *v.* Park (1889) 131 U. S. 88, though he may not attach a resale restriction to the medicine itself. Dr. Miles Medicine Co. *v.* Park & Sons Co. (1911) 220 U. S. 373; Park & Sons Co. *v.* Hartman (1907) 153 Fed. 24; *Contra,* Garst *v.* Harris (1900) 177 Mass. 72.

[48]See note 36.

[49](1903) 126 Fed. 364.

question. In that case there was a combination of all the raisin seeding patents quite similar to the combination in the *National Harrow Cases.* The court first declared that the *Bement Case* had held that such a combination was proper (a manifest error!) and then followed that conception of the *Bement Case* as binding authority. The error of the court with respect to the *Bement Case* has been noticed in a later case,[50] and the doctrine therein laid down has not been followed in two subsequent decisions in other circuits.[51]

The principle laid down in the *National Harrow Cases* is followed in *Blount Mfg. Co.* v. *Yale and Towne Mfg. Co.*[52] In that case three companies which controlled between them all the patents upon liquid door checks entered into a tripartite arrangement by which the business was pooled for the common benefit. The Blount Company sought an accounting under this arrangement. The defendant demurred upon the ground that the agreement was illegal under the Sherman Act. The plaintiff relied upon the patents to sustain the agreement. In sustaining the demurrer Brown, *J.* said:

"Combinations between owners of independent patents, whereby, as part of a plan to monopolize the commercial field, competition is eliminated, are within the Sherman Act, for the reason that the restraint of trade or monopoly arises from combination, and not from the exercise of rights granted by letters patent. As by the terms of the contracts under consideration the owners of distinct patents each agreed to restrain its own interstate trade, I am of the opinion that the contracts are in these particulars obnoxious to the Sherman Anti-trust Act."[53]

Another case which enforces the same principle is *United States* v. *Standard Sanitary Mfg. Co.* In that case the United States brought a bill in equity under the Sherman Act to dissolve the defendant as an illegal combination. The proof showed that one Wayman, who had a patent upon a certain tool used to glaze sanitary ware, licensed some sixteen manufacturers in different states to use such tool in consideration of a separate agreement

[50]Indiana Mfg. Co. *v.* J. I. Case etc. Co. (1906) 148 Fed. 21, reversed upon another point in 154 Fed. 365; see also Standard Sanitary Mfg. Co. *v.* United States, U. S. Sup. Ct. November 18th, 1912.

[51]Blount Mfg. Co. *v.* Yale & Towne Mfg. Co. (1909) 166 Fed. 555; U. S. *v.* Standard Sanitary Mfg. Co. (1911) 191 Fed. 172.

[52](1909) 166 Fed. 555, 562.

[53]Agreements of a somewhat similar character by non-patentees had been held improper in U. S. *v.* Addyston Pipe etc. Co. (1899) 175 U. S. 211 and Montague *v.* Lowry (1904) 193 U. S. 38.

by each manufacturer to sell the ware at certain prices and only to certain designated jobbers. Each of the designated jobbers in turn executed a separate agreement not to buy except from the sixteen manufacturers and not to sell below certain prices. The defendants contended that the combination was rendered lawful by the licenses from Wayman. In overruling this contention Rose, *J.* said:

"* * * A patentee who monopolizes his invention breaks no law. He who uses his property right to exclude others from making, selling or using his invention, for the purpose and with the effect of making a combination to restrain trade in something from which his patent gives him no right to exclude others, does break the law. He breaks it precisely as the individual defendants in the Standard Oil and American Tobacco Companies broke it. They had the same right to use their brains, their capital, and their credit as they thought best, as he had to use his right to exclude all others from making, using or selling automatic dredges. He was subject to the same limitations as they were. They could not lawfully use their brains, their money, and their credit to restrain trade in petroleum and tobacco. He cannot use his patent rights to restrain trade in unpatented bathtubs."[54]

A somewhat similar question arose in *Vulcan Powder Co.* v. *Hercules Powder Co.* There the plaintiff brought action upon a tripartite agreement by which the plaintiff, the defendant and another powder company pooled their business. The defendant demurred upon the ground that the agreement was illegal under the California anti-trust statute. The plaintiff contended that the statute did not apply because some of the explosives were patented. In sustaining the demurrer McFarland, *J.*, said:

"* * * But no case has been cited in which it has been held that several persons or companies can legally enter into a business combination to control the manufacture, or sale, or price of a staple of commerce merely because some of the contracting parties have letters patent for certain grades of that staple. * * *"[55]

Again in *State* v. *Creamery Package Co.* the State of Minnesota brought action to forfeit the license of the defendant to do business in the State upon the ground that the defendant had become party to an agreement in restraint of trade. The proof showed that the Package Company had absorbed its competitors

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[54](1911) 191 Fed. 172, 190. Affirmed by the United States Supreme Court, November 18th, 1912, *sub nom.* Standard Sanitary Mfg. Co. *v.* United States. The opinion was handed down too late to be considered at length in this article.

[55](1892) 96 Cal. 510, 516.

in the manufacture of creamery supplies by exchanging its stock for their stock. These supplies were covered by patents. In granting the relief prayed for, O'Brien, *J.*, said:

"There can be no question that the holder of a duly issued patent has a lawful monopoly in its use, and he violates no public policy in protecting his monopoly to the fullest extent. But it does not follow from this that the patentee acquires the right by combining with other patentees to extend the monopoly granted to each, and thus abuse the privilege conferred upon him by the government. * * *"[56]

In *United Shoe Machinery Co.* v. *La Chapelle* the defendant, an inventor of shoe machinery, in consideration of employment by the plaintiff, agreed to assign to the plaintiff all inventions which he might make while so employed and for ten years thereafter. After the employment ceased he obtained a patent for an improvement in shoe machinery. The company thereupon brought a bill in equity to compel him to assign it, pursuant to the contract. The answer alleged facts tending to show that the plaintiff was a combination in restraint of trade in violation of the Sherman Act, and that the contract sued on was made in aid of the unlawful scheme. The trial judge ruled that this defense was not open. In sustaining the defendant's exception to this ruling, Rugg, *C. J.*, said:

"* * * No word or phrase in the Sherman anti-trust act reveals an intent to exempt the owners of patents from its sweeping provisions against monopolistic combination. We are unable to perceive any underlying reason for supposing that by implication growing out of economics or business conditions such as exemption was intended. There appears to be no inherent natural distinction between owners of patents and owners of oil which would justify the application of the statute to one and not to the other. The conclusion seems to follow that the comprehensive condemnation of the act against every person who monopolizes interstate commence by combination with others includes holders of patents as well as others."[57]

Yet every agreement by which a patentee extends the scope of his monopoly is not invalid. This is shown by two lines of cases which must now be considered.

In the first place a patentee may to some extent buy up other similar patents. In *Indiana Mfg. Co.* v. *J. I. Case etc. Co.*[58] the

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[56](1910) 110 Minn. 415.
[57](Mass. 1912) 99 N. E. 289, 292.
[58](1909) 154 Fed. 365.

owner of the pioneer and dominant patent on pneumatic straw stackers bought in five other subsidiary pneumatic straw stacker patents and then issued licenses to substantially all the threshing machine manufacturers of the country. One of the licensees disregarded the terms of his license and the plaintiff brought action to restrain such infringement. The defendant alleged in defense that the plaintiff was an illegal combination. The judgment below was for the defendant.[59] The Court of Appeals reversed the decision, holding that under the circumstances neither the number of patents held by nor the number of licenses issued by the plaintiff constituted a violation of the act. The majority opinion expressly declared that the plaintiff might buy up even competing patents. Judge Grosscup, however, concurred in the result upon the ground that the additional patents were simply for improvements upon the dominant patent already owned by the plaintiff. All that the case actually decided is that a patentee may buy in patents for improvements even though his original patent is thereby in effect extended. The latter proposition has already been approved by the Supreme Court.[60] The question as to how far a patentee may monopolize the whole filed by acquiring competing patents seems to be still open. The weight of present authority, however, is that it is improper to create the monopoly either by agreement between the patentees,[61] or by conveying the patents to a holding company.[62]

The other line of cases has just been approved by *Henry* v. *A. B. Dick Co.*[63] In that case the patentee of a mimeograph licensed the use of it only with ink manufactured by the patentee. A notice of this restriction was attached to the machine itself. A purchaser bought ink from the defendant against whom the plaintiff filed a bill for contributory infringement. The ink was unpatented. The court held the restriction valid and granted the relief prayed for.

Here, it will be observed, the patentee is allowed to extend, by agreement, his patent monopoly to an unpatented article used

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[59](1906) 148 Fed. 21.

[60]U. S. *v.* Bell Tel. Co. (1897) 167 U. S. 224.

[61]Blount Mfg. Co. *v.* Yale & Towne Mfg. Co. (1909) 166 Fed. 555; Vulcan Powder Co. *v.* Hercules Powder Co. (1892) 96 Cal. 510.

[62]National Harrow Cases, see notes 43-45; State *v.* Creamery Package Co. (1910) 110 Minn. 415; United Shoe Machinery Co. *v.* LaChapelle (Mass. 1912) 99 N. E. 289.

[63](1911) 224 U. S. 1. Day, *J.* was absent and no successor had been appointed to Harlan, *J.* who died before the decision was announced.

in connection with the patented article. The decision was by four judges to three. The majority opinion was by Mr. Justice Lurton, who was already committed to this doctrine by *Heaton-Peninsula Button Fastener Co.* v. *Eureka Specialty Co.*[64] The concurring justices were McKenna, *J.*, Holmes, *J.*, who in *Garst* v. *Harris*[65] held that the proprietor of a secret medicinal formula might attach to the medicine a condition as to resale price,[66] and Van Devanter, *J.*, who in *National Phonograph* v. *Schlegel*[67] gave his adherence to the doctrine of the *Button Fastener Case.* The dissenting Justices were White, *C. J.*, Hughes and Lamar, *J. J.* The case, however, affirms the proposition already laid down in the *Button Fastener Case,*[68] that contracts made by a patentee respecting the use of the invention are subject to the general law and the rules of public policy. Under this rule the contracts of the patentee are, of course, subject to the Sherman Act. All that this case decides is that a patentee may, as a condition of his license, require that the user of the patented article buy supplies therefor from him.[69] Whether the principle will be further extended remains to be decided.

There remains then a debatable land in which the right of the patentee is as yet uncertain. On the one hand he may to some extent extend his monopoly by acquiring additional patents and by reserving to himself the right to furnish supplies for use with the patented article. On the other hand, by the weight of authority, he may not stifle competition between different patents either by contract or by concentrating the patents in the hands of a holding company. Somewhere between these two points the boundary of his right appears to lie. It may be that *Henry* v. *A. B. Dick Co.*, marks its utmost limit. It is to be hoped that this uncertainty may be dispelled in the near future by further decisions or by legislation.

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[64](1896) 77 Fed. 288.

[65](1900) 177 Mass. 72.

[66]The Supreme Court, Holmes, *J.* dissenting, held the contrary in Dr. Miles Medical Co. *v.* Park & Sons Co. (1911) 220 U. S. 373.

[67](1904) 128 Fed. 733.

[68](1896) 77 Fed. 288, 292, 293.

[69]For a further discussion of this case see 12 COLUMBIA LAW REVIEW 445; 25 Harvard Law Review 641.